

annual report and financial statements

2005–06

Presented to the
House of Commons
pursuant to section
7 of the Government
Resources and
Accounts Act 2000.
Ordered by the House
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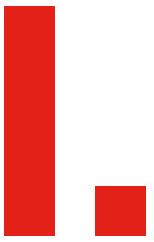
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design council annual report 2005–06

1.1 introduction

Treasury Accounts Direction

These accounts have been prepared in accordance with the Accounts Direction issued by the Secretary of State for Trade & Industry on 11 May 2006. This Annual Report and Financial Statements 2005–06 also complies with the 2005 Government Financial Reporting Manual (FReM) and the Charities Statement of Recommended Practice (SORP) 2005.

History and Background

The Design Council is the national strategic body for design.

Its purpose is to strengthen and support the UK economy and society by inspiring and enabling the best use of design. Its vision is that UK management is the best user of design in the world, supported by the most capable and skilled design professionals.

The Design Council has a history of success from its role in post-war reconstruction to consumer engagement and international promotion. With initiatives including the Haymarket Design Centre and Millennium Products, it has played an important role in our national life.

Created in 1944, the Design Council is an executive Non Departmental Public Body (NDPB), largely funded by Grant in Aid from the Department of Trade and Industry (DTI). In May 2005, following Machinery of Government changes; the Department for Culture, Media & Sport (DCMS) became with the DTI jointly responsible for the organisation.

The Design Council was incorporated by Royal Charter in 1976 and is a registered charity, working in the context of a number of regulatory documents (including the Financial Memorandum and Management Statement). The DTI is sole Grant in Aid funder of the Design Council and the Secretary of State for Trade & Industry is therefore accountable to Parliament for the finances of the Design Council and the Design Council's work related to this funding.

The Design Council is not affiliated within an umbrella group or a wider network.

Registered charity number: 272099
Principal address: 34 Bow Street,
London WC2E 7DL.

1.2 objectives and activities

Overview

The Design Council's purpose is to strengthen and support the UK economy and society by inspiring and enabling the best use of design. We pioneer new design-led approaches to social and economic change and demonstrate and communicate the value of design to decision makers in the public, business and design sectors.

Following an internal review in 2003–04 the Design Council reviewed its priorities in light of the fast-changing global context and set new goals based around the central role of design as a driver of innovation, competitiveness and productivity.

The Corporate Plan for the period 2004–07 set out the organisation's objectives based upon three sectors of the economy:

Charitable Objectives for 2004–07

In business	In public services	In the design sector
<p>1 Demonstrate design's strategic role within business processes and the commercialisation of new science with robust and inspiring first-hand evidence.</p> <p>2 Develop, support and influence national programmes which support UK managers seeking to use design to transform their businesses.</p> <p>3 Connect business advisors, front-line managers, and educators with international best practice in design.</p>	<p>4 Create new models of public procurement in which the value of design is a key element.</p> <p>5 Demonstrate, through practical interventions, the role of design in modernising public services.</p> <p>6 Influence opinion-formers in key Government departments and agencies to encourage strategic design thinking and applications</p>	<p>7 Help to strengthen design sector infrastructure in relation to training, representation and education.</p> <p>8 Facilitate stronger educational links between design and other business and organisational disciplines.</p> <p>9 Initiate a public engagement programme which promotes the practical power of design.</p>

Activities for 2005–06

The following are the specific activities we undertook in 2005–06 in pursuit of our charitable objectives.

■ **RED:** the research and development group of the Design Council, RED identifies future campaigns for the organisation; it explores economic and social issues of national importance where we believe design can have a significant influence.

Health: establish a new Health Campaign based on the current service design project.

corporate objective	main sector
4,5	Public

corporate objective	main sector
4,5,6	Public
4,5	Public
4,5,5	Public

- Sustainability:** explore the contribution design can make to sustainability and climate change.
- Campaign R&D:** identify the next priority theme for design and Design Council intervention.
- Design debate:** enhance the role of the Design Council as a centre for new thinking around design.

■ **Campaigns:** accelerates innovation and transformation within UK business and public services through targeted practical interventions that promote the strategic use of design. They then capture that transformation in the form of case studies, methods and programmes.

Technology Campaign: develop a design support product for emerging technology companies.	1,2,3	Business
Manufacturing Campaign: refine the Design Immersion Programme tools and methods to create a resource for business managers, to be delivered via RDA business support services.	1,2,3	Business
Learning Environments Campaign: influence the Government's school buildings programme to adopt a design-led approach.	2,3,5,6	Public
Skills Campaign: instigate a programme to support design sector skills and strengthen educational links across design, business, science and technology.	2,3,6,7,8,9	Design

■ **Design Solutions:** transfers methods and programmes from our campaigns into the hands of partner organisations and disseminates case studies and knowledge directly to managers

Regional Design Programme: develop and launch a design programme for businesses in three RDA regions.	1,2,3	Business
Website: upgrade the website to support our campaign networks, regional programmes and wider knowledge dissemination.	All	All
Government spending review: conduct an effective SR2006 campaign, to ensure design promotion and policy are best represented in Government spending plans.	6	All
Enhanced research and information capability: complete benchmark research surveys across three sectors: business, public sector and design in order to build evidence of the case for design.	All	All

■ **Dott:** direct a biennial programme of public engagement which will raise awareness of the value of design to national prosperity and well-being.

- Dott:** develop and launch an inspiring educational initiative to drive up public awareness of design, to be held every two years in partnership with an RDA.
- Access:** develop and promote a seasonal programme of events that widens access to our campaigns and activities.

9	Design
All	Design

Sustainability

Sustainability is one of the core Design Council brand values and as such the Design

Council commits to using resources efficiently and procuring materials and goods on the basis of their environmental, social and economic impact. The Design Council works hard to reduce the amount of waste generated and to recycle, where possible.

In 2005–06 we delivered a scoping report to the government's Sustainable Design Forum, and the DTI and DEFRA are exploring future activity based on its recommendations.

We also carried out a project to explore the contribution design can make to sustainability, particularly in domestic energy. This work is now being carried forward by the Energy Savings Trust and the Greater London Authority, who have secured £40k to pilot an energy support service in a London Borough.

1.3 Performance

In order to demonstrate the achievement of the objectives outlined in the previous section the Design Council set itself a number of hard measures against which success is assessed, namely:

- The short and long-term impact of our programmes on audiences and sectors, as set out in our Corporate Plan 2004–07
- The reach of our engagements with our audiences in business, the public sector and design—short-term measures of progress set out in our Business Plan 2005–06
- The extent of our influence on government and other national and regional bodies.

Short-term impact measures 2004–07

In business	In public services	In the design sector
<ul style="list-style-type: none">■ Design skills and methodologies are valued more highly by the companies with which we work directly.■ Design is valued more highly by business managers in the sectors that we target.■ International design best practice is valued more highly by our target audience.	<ul style="list-style-type: none">■ Design is valued more highly as a criterion for procurement within target public service organisations.■ Design skills and methodologies are valued more highly by the public service organisations with which we work directly.■ Design is valued more highly by opinion formers in the public services that we target.	<ul style="list-style-type: none">■ Design sector achieves more coherent and cohesive representation.■ Design is valued more highly by educationalists and institutions with whom we work directly.■ Design is valued more highly by partners in the public engagement programme.

Long-term impact measures 2004–07

In business	In public services	In the design sector
<ul style="list-style-type: none"> ■ Improve the performance of the companies with which we work. ■ Increase the degree by which the target sectors value design. ■ Increase the degree to which the target sectors value international design best practice. 	<ul style="list-style-type: none"> ■ Greater value for money is achieved within target public service sectors. ■ Increase the performance of the public service organisations with which we work directly. ■ Government provides clear and specific guidance on the use of design within target departments. 	<ul style="list-style-type: none"> ■ Design sector is valued more highly by users. ■ Students within target sectors are more aware of the value of design. ■ Increase in the perceived value of design by the public.

Performance indicator targets 2005–06

The desired impact of our work is that the managers and organisations we influence will improve their performance; however, in many cases this can take time to evaluate. In order to demonstrate progress in the short-term we use a set of proxy indicators which show our reach i.e. the demand for our knowledge, information and methods among our target sectors.

In business	In public services	In the design sector
<ul style="list-style-type: none"> ■ 2,000 businesses managers will have benefited from our programmes. ■ 70,000 businesses managers will have accessed knowledge/information from the Design Council. ■ £2million committed by RDAs to the Design for Business programme. 	<ul style="list-style-type: none"> ■ 20 regional education and health authorities will have participated in our programmes. ■ 400 front-line, public sector managers benefited from our programmes. ■ 40,000 public sector managers will have accessed knowledge/information from the Design Council. ■ £640,000 committed by partners for Design Council campaigns. 	<ul style="list-style-type: none"> ■ 400 students and designers will have benefited from our programmes. ■ 200,000 students and designers will have accessed knowledge/information from the Design Council. ■ £1.8million will have been committed by other organisations for Dott and our Design Skills work.

Summary of achievements

Having looked at our evaluation measures – this section now considers the impact and core successes of the Design Council.

This was the second year of our three year Corporate Plan following a complete restructuring of the organisation and a refocusing of our work in 2003–2004.

Over the last two years:

- We have launched major programmes and raised our profile and increased our influence on policy. The Design for Business programme launched in South Yorkshire, with four other RDAs in line to begin delivery in 2006, and negotiations underway with all others.
- We have launched a ten-year public engagement programme, Design of the Times (Dott), starting with a joint venture, Dott 07 in the North East.
- We have also made significant progress towards building design into policy, with the launch of the Cox Review, and our growing involvement and influence with government departments and agencies.
- Other major projects that have made great strides this financial year include the Design Industry Skills Development Plan launched in May with Creative and Cultural Skills, and development of our new website, upgraded to support wider knowledge transfer and due to go live in September.

■ Design for Business programme 2005–06 impacts

The Design Council's Design for Business programme has been tested across several business sectors in collaboration with a range of RDAs and business institutions. The independently validated results show:

- 96% of delegates on recent SME workshops in South Yorkshire rated them highly. Interviews with workshop attendees two months on showed that they put learning into practice, with 86% stating an improved ability to identify design opportunities in their business.

— The pilot support programme has yielded strong bottom-line impacts including, on average: turnover 14% above expected levels; employment 13% above expected levels; profits 9% above expected levels.

— The pilot support programme for early-stage technology ventures has also reported hard economic impact. All businesses are still operating, when statistics suggest that 1 in 3 should have failed after three years. 80% of companies have changed strategic direction towards a stronger customer focus; 50% saw a reduced commercial risk; 50% have increased their ability to raise finance.

■ Other core impacts 2005–06

— The Design Skills Campaign has trialled the Inside Track placement scheme pairing management and design graduates in real-world business situations. The students stated that it has positively impacted on their learning and career prospects, with three out of 10 design students from the 2004 placements setting up their own design consultancies.

— RED's preventative healthcare service prototypes have been taken forward by the NHS. Bolton Diabetes Network has acquired 1000 sets of Diabetes Cards to test on diabetes sufferers in seven GP surgeries in 2006.

— The Energy Savings Trust (EST) and the Greater London Authority (GLA) are taking forward RED's work on sustainability and have secured £40k to pilot an energy support service in a London Borough.

— In early win from the Cox Review, Design Council recommendations on R&D are being incorporated into new DTI R&D guidelines.

Performance indicators 2005–06

Numbers accessing our knowledge (predominantly via our website) have exceeded 350,000, up around a third on last year, even before our new website is launched.

Large numbers of managers, designers and educators have benefited from our various pilot initiatives and core services:

- 1,500 business managers
- 200 public sector managers
- 1000 students and design practitioners.

We have raised external funds and have influence over significant spend. Around £2m was spent by external parties in 2005–06 on design-related activity over which the organisation has direct influence. We are negotiating commitments in excess of £30m over the next few years.

In spite of our success, we are not set to reach all targets that were set at the beginning of the year, predominantly because some key RDAs have committed to delivery of the Design for Business programme starting next year rather than this financial year.

The table below lists our achievements against our performance indicators as well as our projected targets for 2006–07. These indicators aim to show the reach and demand for our knowledge, information and methods among our target sectors.

	2004–05 ACTUAL	2004–05 TARGET	2005–06 ACTUAL	2005–06 TARGET
In business				
■ Business managers benefited from our programmes	1,355	2,000	1,580	3,000
■ Business managers accessed our knowledge/ information	56,248	200,000	82,136	100,000
■ Funds committed by RDAs and others to Design for Business programme.	£679,918	£2,000,000	£810,602	£1,500,000
In public services				
■ Public sector managers benefited from our programmes	70	70	190	400
■ Public sector managers accessed our knowledge/ information	36,638	40,000	53,850	70,000
■ Funds committed by other government departments & agencies for public sector work programme.	£209,554	£640,000	£440,186	£550,000
In the design sector				
■ Students, designers and the public benefited from our programmes	461	400	1032	1200
■ Students, designers and the public accessed our knowledge/ information	151,641	70,000	221,289	280,000
■ Funds committed by other organisations to design skills and public engagement (Dott).	£26,958	£1,800,000	£639,733	£1,200,000

Extent of our influence

A critical dimension of the Design Council's role is its ability to influence the policies and actions of government and other agencies. Evidence of our influence includes:

- Working in close partnership with all nine RDAs and a wide range of other government agencies including DEFRA, the NHS, DfES, DCA, Treasury, and the Sector Skills Council.
- Our Design Skills Advisory Panel, chaired by Paul Priestman, has created a powerful industry alliance, including fostering closer collaboration with the professional and trade bodies (CSD, DBA, and D&AD).
- The Design Council secured cross-party support for its key policies prior to the General Election. This included pledges in the Labour Party Business Manifesto and Conservative Party Manifesto.
- Alongside the publication of our evidence base in the March 2005 Pre-Budget Report, the Chancellor requested an independent report from our Chairman, Sir George Cox, which became the Cox Review.
- All of the Design Council's core policy agenda items were incorporated into the Cox Review and have subsequently been integrated into Treasury economic policy around competitiveness and productivity.
- We are involved in the DCMS Creative Economy Review, and are represented on the majority of the working groups and the steering groups.

1.4 Plans for the future

Context

The Cox Report confirms that the global economy is facing another massive economic shift. We are in the midst of this new cycle with its complex and sometimes conflicting mix of pressures. While international competition will intensify, including the meteoric rise of developing nations such as China and India, tough choices will have to be made in order to protect natural resources and reduce the impact of climate change. To compete and survive in this fast-changing environment will require new levels of creativity, innovation and ideas. The Cox Report provides a timely framework for a national design strategy at a time when industry and governments around the world are looking to strengthen their creative capabilities.

The Design Council's future plans will build on the experience, knowledge and programmes which have informed the Cox Report. It also seeks to build on the new agenda agreed with government and to advance this at the heart of a national design strategy.

Design at the heart of national economic and social priorities

The Design Council will retain its focus on inspiring and enabling the very best use of design within business and the public sector in order to drive competitiveness and innovation and improve performance. This is matched by equal efforts to support our creative economy and develop the skilled designers of the future. In the coming year we aim to do the following:

In business	In public services	In the design sector
<p>In business we aim to play a key role in accelerating UK competitiveness and productivity:</p> <ul style="list-style-type: none"> ■ Delivering the Design for Business programme to 6,500 businesses over five years. ■ Facilitating and supporting agencies involved in the delivery of the Cox recommendations, including the RDAs, national executives and universities. 	<p>In the public sector we will seek a new joined-up approach to design innovation and service transformation:</p> <ul style="list-style-type: none"> ■ Expanding our RED design demonstrations into multi-agency public/private projects, starting with an emphasis on health and the elderly. 	<p>In design we aim to strengthen the training, education and skills development infrastructure encouraging the sector to flourish across the country:</p> <ul style="list-style-type: none"> ■ Accelerating the growth of regional creative economies and engaging the public through our biennial national design promotions. ■ Providing a coherent skills development plan across schools, higher education and the workplace to meet the needs of the next creative generation.

Operating in a challenging environment

The Design Council is a national strategic body with an agenda that is recognised as vitally important by government. It is right, therefore, that its plans should be ambitious and far-reaching. Expediting the plans will not, however, be easy.

The Design Council is a small organisation. Despite the fact that its programmes have attracted significant investment and demonstrated the strength of demand, core Grant in Aid continues to diminish from an already relatively small base. This restricts our ability to invest and influence the outcomes of our programmes as they roll-out on the ground.

As we look forward there are a number of critical external dependencies which will affect our ability to deliver:

- The accelerated roll-out of the Design for Business programme is dependent on funding from government or other sources.
- Our biggest programmes (Design for Business and Dott) are dependent on investment from the RDAs. Whilst funding has been secured for the period of this next business year, the RDAs are subject to zero-based reviews.
- While we are playing a central role in advancing the implementation of the Cox Report, around which some may judge our success, accountability lies with government and responsibility is devolved across many agencies.
- The ability of the Design Council and other agencies to deliver to the Cox agenda will be dependent on a successful outcome from the Government's 2007 Comprehensive Spending Review. We know that this will be a harsh funding round.
- The DCMS has joined the DTI as joint departmental sponsor of the Design Council. The DCMS is itself defining its priorities over the summer/autumn period in a review called 'The Creative Economy Programme'.

The strategic responses to these and other variables have been discussed by the Council within this recent review period. The key principles were agreed, which include:

- Creating a distinction and separation between the core activities of the Design Council as a national strategic body and those that relate to programme delivery. Major delivery programmes will frequently be delivered through satellite or joint venture vehicles.
- The organisation's role as a national strategic body will continue to be enhanced, with a strong emphasis on facilitating and connecting up the system. This will include a programme for decision-makers and opinion-formers across the many agencies involved in delivering programmes and policies.
- Managing and influencing delivery within a more complex funding environment will call for enhanced business skills within the organisation. A new role of Enterprise Director will be appointed at executive board level. One of their early priorities will be to ensure the effective set-up of the venture business that will deliver the Design for Business programme.
- In a changing world the Design Council will need to be as adaptive as possible. A new matrix-based organisational model will be adopted, placing the emphasis on flexible project teams and core skills rather than departmental structures.

1.5 Governance and management

Governance structure

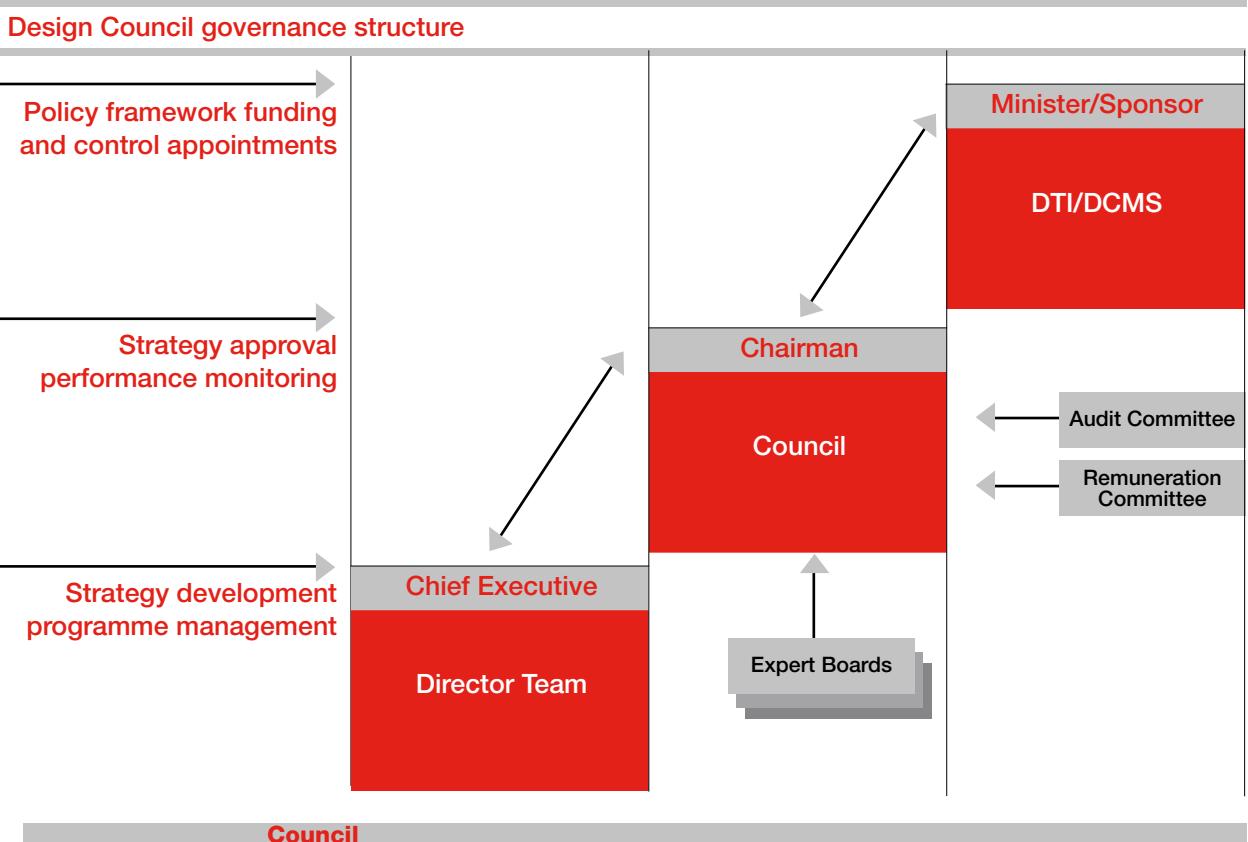
The DTI and DCMS jointly sponsor the Design Council. The Secretary of State for Trade and Industry is accountable to Parliament for the activities and performance of the Design Council and the Secretary of State for Culture is 'co lead' Minister. These government departments provide the policy framework for the organisation (eg, through the Management Statement and Financial Memorandum) and approve the annual business plans.

The Secretaries of State are also responsible for making appointments to the Council and approving the appointment of the Chief Executive, according to principles established by the Office of the Commissioner for Public Appointments. No other person or body is entitled to appoint Council Members.

The Council (or the board of trustees for the organisation) has corporate responsibility for setting and ensuring that the Design Council fulfils its aims and objectives and for promoting the efficient and effective use of staff and other resources. The Chairman is responsible for ensuring that the Design Council's policies and actions support the wider strategic policies of the Secretaries of State.

The Director Team and Chief Executive are entrusted by Council to run the organisation day-to-day. They develop the strategies that enable the organisation to achieve its purpose and lead the work that contributes to the purpose. They are therefore accountable to Council for the performance of the organisation.

The diagram below gives an overview of the key groups and individuals involved in corporate governance. It also shows major responsibilities and lines of reporting and accountability.



There were 16 Council members on 31 March 2006 who are listed below. Audit Committee members are marked with an asterisk.

COUNCIL MEMBERS	APPOINTMENT DETAILS	AUDIT
Sir George Cox, Chairman	Appointed 1.10.04	
Hamish Bryce	Term ended 31.12.05	*
Bonnie Dean	Appointed 1.01.05 for three years	*
Penny Egan	Reappointed 1.01.06 for three years	*
John Hazelwood CBE DL	Reappointed 1.01.06 for one year	*
John Hollar	Appointed 1.01.05 for two years	*
Jim Hytner	Appointed 1.03.06 for three years	
Jonathan Kestenbaum	Appointed 1.03.06 for two years	
Professor Geoff Kirk	Appointed 1.01.05 for three years	
Stuart MacDonald	Appointed 1.05.05 for two years	*
Geoff Mulgan	Appointed 1.03.06 for two years	
Paul Priestman	Appointed 1.01.05 for two years	
Jonathan Sands	Reappointed 01.01.06 for two years	*
Janet Walker	Appointed 1.03.06 for three years	
Peter Williams	Appointed 1.03.06 for three years	
Richard Williams	Appointed 1.01.05 for three years	
Professor Chris Wise	Appointed 1.01.05 for two years	

All new Council members receive a welcome pack with key corporate information including the Corporate Plan, Business Plan, Annual Review and other key publications. They have a one-to-one meeting with the Chief Executive who inducts them

into the history and core activity of the organisation and to the roles and responsibilities of Council members. Council members agree their specific portfolios in partnership with the Chief Executive and Chairman. They will then meet with key Design Council staff members according to their speciality or portfolio.

A strategy retreat is held for all Council Members in the early summer and the Chairman conducts a performance review of all Council Members each December. Any training or development needs are identified through a performance and feedback questionnaire.

Director Team

The executive team is headed by five Directors reporting to the Chief Executive. Members of the team during 2005–06 were as follows:

DIRECTOR TEAM	APPOINTMENTS
CHIEF EXECUTIVE	
David Kester	APPOINTED 22.04.03
DIRECTORS	
Harry Rich DEPUTY CHIEF EXECUTIVE	APPOINTED 1.03.99
Toby Scott PLANNING DIRECTOR*	APPOINTED 25.11.02 LEFT ON 21.12.05
Jeremy Brown PLANNING DIRECTOR*	APPOINTED ON 21.11.05
Hilary Cottam ** RED DIRECTOR	APPOINTED ON 1.07.01
Robin Murray** RED DIRECTOR	APPOINTED ON 1.11.04 LEFT ON 31.10.05
Richard Eisermann DESIGN & INNOVATION DIRECTOR	APPOINTED ON 23.06.03 LEFT ON 12.05.06
Deborah Fitzgerald MEDIA & COMMUNICATIONS DIRECTOR***	APPOINTED ON 17.08.05
Ruth Hasnip MEDIA & COMMUNICATIONS DIRECTOR***	APPOINTED ON 04.01.02

*Jeremy Brown is the interim Planning Director following the departure of Toby Scott.

**Robin Murray was the interim RED Director while Hilary Cottam was on maternity leave.

***Ruth Hasnip is currently on maternity leave, Deborah Fitzgerald is covering the post.

The Design Council holds a register of Council Members' and Directors' directorships or other significant interests, which can be accessed via the Design Council's website.

Employees

The Design Council is an equal opportunity employer committed to a policy of treating all our team members and job applicants equally. It is policy to take all reasonable steps to employ and promote team members on the basis of their abilities and qualifications irrespective of their race, religion, age and gender.

Discrimination, harassment, or victimisation on the grounds of race, religion, colour, sex, age, religious beliefs, disability, or sexual orientation is not tolerated. Such behaviour may be considered as gross misconduct and may result in summary dismissal.

The Design Council is committed to developing and training its staff and is an accredited Investor in People.

Auditors and Professional Advisors

The Design Council's Financial Statements are audited by:

Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
London SW1W 9SP

The fee for external audit services in 2005–06 was £30,000 excluding VAT. There were no non-audit services provided by the National Audit Office during the year.

Professional support and advice is received from:

Internal Auditors
Baker Tilly
2 Bloomsbury Street
London WC1B 3ST

Legal Advisors
Cumberland Ellis Piers
60 Aldwych
London WC2B 4RW

The Design Council banks with:

Lloyds TSB Plc
25 Gresham Street
London EC2 7HN

1.6 Financial Review

Incoming resources for the year were £8.96m (2005 £8.04m) and total resources expended were £9.03m (2005 £7.99m) resulting in net outgoing resources before transfers of £71k for the year (2005 £54k net incoming resources).

The Department of Trade and Industry (DTI) provided £6.6m (2005 £6.6m) Grant in Aid as core funding. In addition the DTI provided £1m in continued support for the Technology and Manufacturing campaigns and the Design for Business programme as well as £500k for the building of a new website. Income of £286k was provided by the DfES to finance the Learning Environments campaign.

The need to broaden our income base beyond the core Grant in Aid was identified in the 2004–07 Corporate Plan, which established the goal of generating 30% from other sources. In 2005–06 such sources accounted for 26% of total income for the year (18% 2004), representing considerable progress against this objective.

The Design Council neither made nor received any charitable donations in excess of £200 during the year.

As an entity established by Royal Charter the Design Council does not have shareholders and therefore does not pay dividends.

Financial position

As at 31 March 2006 the Design Council has net assets of £1.48m (2005 £1.47m). In addition the Design Council has substantial additional intangible assets—primarily its brand and the intellectual property developed through its operations. This is evidenced by the current Design for Business programme's exploitation of the intellectual property developed through the Technology and Manufacturing campaigns. As this has been internally generated it has not been capitalised in accordance with FRS 10.

The organisation is heavily dependent on continued funding from the DTI, without which it could not operate on such a scale. The continued support of the DTI was set out in the SR2004 funding allocation to the end of 2007. Beyond this period, Comprehensive Spending Review 2006 will determine the level of funding and the future viability of the organisation, however as the organisation's resources are not being subject to a 'zero based' review the organisation is hopeful that it will be operating with a continued level of support in the medium term.

Dott 07/Designs of the Time Ltd, a joint venture with One North East was incorporated as a company limited by guarantee on 21 March 2006. At the balance sheet date this company had yet to start trading and had zero net assets.

Reserves

At 31 March the Design Council held total reserves of £1.48m of which £0.3m are restricted (2005 £0.3m).

Restricted funds represent income recognised, but as yet unspent, that can only be spent for specific purposes agreed with the funder. No restricted funds are in deficit.

Incoming resources relating to capital purchases are held within a Deferred Capital Grant in Aid Reserve from which transfers are made to the income and expenditure account to offset the impact of the annual depreciation charge for certain assets. The organisation does not hold any other designated funds.

The revaluation reserve arises from the annual revaluation of fixed assets using government indices.

Unrestricted reserves represent cumulative historical retained surpluses, rather than a consciously held level of reserves. Such unrestricted reserves represent only 5% of total resources expended for the year; this level reflects the relative certainty of income streams and operating cycles in the recent past. Increasingly, however, as the organisation implements the Design for Business programme and starts to work through third party vehicles it will be necessary to review this position to ensure that the organisation retains adequate operational flexibility and protection against financial uncertainty.

Management will conduct a review of the Reserves Policy in early 2007-08, though any change will require the approval of the DTI and increased flexibility in the organisation's Financial Memorandum, which currently limits the holding of reserves.

Investment policy

The Design Council does not hold investments, however it earns interest on its Sterling bank balance. Also, as far as is operationally possible, the organisation keeps Grant in Aid balances to a minimum, drawing down funding only as it is required.

Financial risk management

Financial risks are identified and managed as part of the organisation's risk management procedures.

The Design Council is primarily financed by Grant in Aid through the DTI. As Grant in Aid funding allocations are indicated over three-year periods this provides a degree of medium-term financial security with little or no credit risk.

Most other incoming resources are also provided by the DTI or other government bodies and therefore have limited credit risk. With other sources of funds, terms are negotiated to optimise cash flow and, where appropriate, credit checks are made to limit the risk of loss.

The Design Council is not exposed to any interest rate risk, as the organisation does not borrow commercially and investment income is a negligible source of revenue.

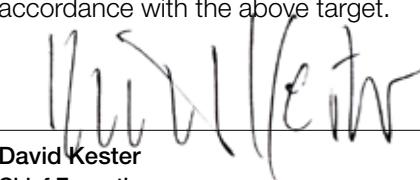
The only foreign currency risk exposure arises from translation of a Euro bank balance, which stood at €62k on 31 March 2006 (€64k 2005).

Better Payment Practice Code

The Design Council's policy is to pay all properly authorised invoices by the due date or within 30 days if no due date has been agreed in accordance with the Better Payment Practice Code.

In November 1998, the Late Payment of Commercial Debts (Interest) Act came into force, providing small businesses (and all public sector bodies) with the opportunity to claim interest on payments that are more than 30 days overdue. Amended legislation (the Late Payment of Commercial Debts Regulations 2002) came into force on 7 August 2002 providing all businesses, irrespective of size, with the right to claim statutory interest for the late payment of commercial debts. No such claims were received during the reporting year by the Design Council.

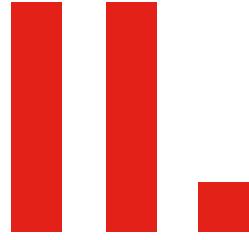
In 2005–06 the Design Council paid 80% (2005 84%) of invoices received in accordance with the above target.


David Kester
Chief Executive

23 July 2007


Sir George Cox
Chairman

20 July 2007



remuneration report

Made up of the Chairman and two other members of Council (as nominated by the Chairman), the Remuneration Committee meets at least once a year and more often if required. The Remuneration Committee is established to review general terms and conditions of employment and specific salary matters in relation to the Design Council Chief Executive, directors and any staff with a salary in excess of £70,000. The setting of other salaries is considered and approved by directors as part of the Treasury's 'Pay Remit' process.

The Chief Executive is paid a salary and a performance-related bonus. This bonus may vary between 10 and 20% of the basic salary and is determined by the Remuneration Committee based on the extent to which agreed annual objectives have been met.

Other senior managers are wholly salaried and while there is no explicit link to performance, an appraisal system exists which assists in determining the extent of annual pay increase, within the limits set by the Pay Remit exercise.

Trustees are not remunerated.

Most staff and all senior managers are on permanent contracts, though some individuals offering skills only required for short periods of time will be offered short-term contracts (no longer than 12 months).

All employees (including the directors) signed a new contract with revised contractual terms and conditions in September 2006, which included the introduction of a contributory group personal pension scheme replacing the previous stakeholder scheme. These changes followed a full review of the Design Council and its subsequent

restructuring and brought employees contracts up to date and in line with current employment legislation. All director contracts are permanent and therefore do not have any unexpired terms.

The first three months of all contracts are considered to be 'probationary', after which an individual is confirmed in post. Up to confirmation, a contract may be terminated without any notice. Once confirmed in post, the length of notice is set out in the employment contract and varies from one to three months. All directors and the Chief Executive are subject to three months notice.

If an individual is made redundant and has worked with the organisation for at least two years, then a compensatory payment will be made. The extent of this payment will depend upon the length of continuous service with the organisation, with a maximum of six months pay in addition to any other contractual entitlements.

The contractual changes described above meant that during the financial year the Design Council implemented a pay remit which gave rise to a pay growth increase of 6.86 per cent. This funded: a pay increase (3 per cent) for all staff; a small number of exceptional increases (0.19 per cent) for staff whose responsibilities had significantly increased or who had gained a relevant professional qualification; some short term extra responsibility allowances; and increases to non-py benefits (0.82 per cent). The introduction of the new pension scheme utilized the remaining 2.85 per cent of the remit. The pay growth increase was however above Treasury guidelines and led to the qualification of the accounts in respect of regularity.

The following table provides an indication of the potential liability should the contract of any director in position at 31 March 2006 be terminated early.

	NUMBER OF COMPLETE YEARS IN CONTRACT	EARLY TERMINATION LIABILITY £'000
CHIEF EXECUTIVE		
David Kester	2	—
DIRECTORS		
Harry Rich DEPUTY CHIEF EXECUTIVE	7	33
Hilary Cottam RED DIRECTOR	4	7
Deborah Fitzgerald MEDIA & COMMUNICATIONS DIRECTOR	—	—
Ruth Hasnip MEDIA & COMMUNICATIONS DIRECTOR	4	6

The following section provides audited details of the remuneration and pension interests of the Chief Executive and directors of the organisation.

	2006			2005		
	£000 SALARY	£000 PENSION	£000 BENEFITS	£000 SALARY	£000 PENSION	£000 BENEFITS
CHIEF EXECUTIVE						
David Kester	149	19	1	137	18	1
DIRECTORS						
Harry Rich DEPUTY CHIEF EXECUTIVE	98	7	1	95	—	1
Toby Scott PLANNING DIRECTOR	60	4	1	76	—	1
Hilary Cottam RED DIRECTOR	46	6	—	76	—	1
Robin Murray RED DIRECTOR	44	—	—	—	—	—
Richard Eisermann DESIGN & INNOVATION DIRECTOR	84	6	—	82	—	1
Deborah Fitzgerald MEDIA & COMMUNICATIONS DIRECTOR	56	2	—	—	—	—
Ruth Hasnip MEDIA & COMMUNICATIONS DIRECTOR	81	6	1	76	—	1

Not all directors served for the entire financial year. Their remuneration relates to the period shown within the governance and management section on page 16.

During the year £100,925 was paid to a recruitment agency for the services of the interim planning director, Jeremy Brown, from November 2005 to the end of the year.

The Chief Executive has his own personal pension scheme, which is a defined contribution scheme into which the Design Council pays. The pension provider does not produce a CETV valuation showing an adjustment for inflation and market forces, therefore it has not been possible to provide the full disclosure. However as CETV figures are required for disclosure purposes only, there is no impact on the financial statements.

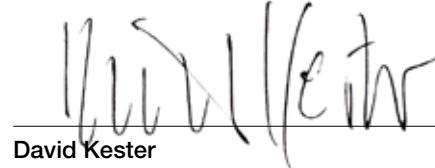
From 1 July 2005 all other directors had the opportunity to participate in the Design Council's Group Personal Pension fund, a defined contribution money purchase scheme. The fund is managed by Scottish Equitable and the Design Council contributes 3%, 5% and 10% of basic salary depending on the seniority of staff (directors receive a 10% contribution). CETV valuations are not relevant for this kind of pension.

The total pension charge for all staff for the year was £85,296 (2005 £18,492).

All staff, including directors, are entitled to benefits in kind in the form of health club membership, private healthcare or childcare schemes.

The following number of directors, including the Chief Executive, received remuneration falling within the ranges shown below

£	2006	2005
40,000 — 49,999	2	—
50,000 — 59,999	1	—
60,000 — 69,999	1	—
70,000 — 79,999	—	3
80,000 — 89,999	2	1
90,000 — 99,999	1	1
130,000 — 139,999	—	1
150,000 — 159,999	1	—


David Kester
Chief Executive

23 July 2007


Sir George Cox
Chairman

20 July 2007

III.

statement of the Council's and the Chief Executive's responsibilities

Under Byelaw 20 of its Royal Charter the Council is required to prepare financial statements for each financial year in the form and on the basis directed by the Secretary of State for Trade and Industry with the consent of the Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the Design Council's state of affairs at the year end and incoming resources and application of resources, financial activities and cash flows for the financial year.

In preparing the financial statements the Council is required to:

- Observe the accounts direction issued by the Secretary of State for Trade and Industry, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- Make judgements and estimates on a reasonable basis
- State whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements
- Prepare the financial statements on a going concern basis, unless it is inappropriate to assume that the Design Council will continue in operation.

Under law applicable to charities in England and Wales, the Council is responsible for keeping accounting records which disclose with reasonable accuracy the financial position of the charity and which enable the Council to ensure that the financial statements apply with applicable law. The Council is also responsible for safeguarding the assets of the Charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

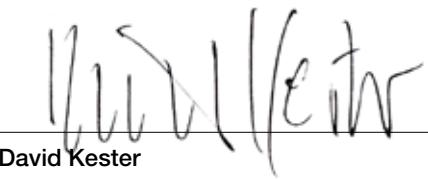
The Accounting Officer for the Department of Trade and Industry has designated the Chief Executive of the Design Council as the Accounting Officer for the Design Council. His relevant responsibilities as Accounting Officer, including the responsibility for the propriety and regularity of the public finances for which he is answerable, for the keeping of proper records and for safeguarding the Design Council's assets, are set out in the Non-Departmental Public Bodies Accounting Officer Memorandum, issued by the Treasury and published in Government Accounting.

IV.

statement on the disclosure of information to auditors

In compliance with the Companies Act (section 234ZA) and the FReM (section 7.2.2(a)) I can confirm that:

- (a) As far as I am aware, there is no relevant audit information of which the entity's auditors are unaware
- (b) I have taken all the steps necessary to make myself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.


David Kester
Chief Executive

23 July 2007


Sir George Cox
Chairman

20 July 2007

V.

statement
on internal
control

5.1 Scope of responsibilities

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Design Council's policies, aims and objectives as set out in the Corporate Plan 2004–07 agreed by the Council and by the Department for Trade and Industry (DTI), while safeguarding the public funds and assets for which I am personally responsible in accordance with the responsibilities assigned to me in Government Accounting.

The Design Council is an executive Non-Departmental Public Body (NDPB) core funded by the DTI. As Chief Executive I am directly responsible to the Chairman of the Design Council for strategic and operational matters, and as Accounting Officer I am responsible to the Secretary of State for Trade and Industry and accountable to Parliament for the Design Council's performance and use of public funds. The Design Council's operations are managed by a Director Team which I chair; all directors are members of this team and there are no non-executive members.

5.2 Purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the

achievement of our policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the Design Council for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

5.3 The risk and control framework

Leadership for risk management is vested in the Chief Executive who delegates day-to-day management to the Planning Director. The Design Council operates a well established risk management system combining several different elements:

Governance structures

The DTI, as our key stakeholder, is directly involved in the risk and control framework. In February 2006 a new Management Statement and Financial Memorandum was agreed ensuring that our primary control documents reflect our current risk profile. These documents will be revised periodically to ensure that they continue to provide an effective basis of control.

The Audit Committee meets regularly throughout the year and is responsible for assessing all organisational risks on behalf of the Council and ensuring that appropriate steps are taken to mitigate them.

Internal & external audit

An internal audit function is provided by Baker Tilly, with an annual audit strategy

agreed with the Audit Committee. Implemented through two audit visits, the strategy is risk-based, focusing on areas of potential risk in addition to a core programme of examining financial controls. Audit recommendations are made to Director Team, with responses and implementation of recommendations managed by the Planning Director.

As part of the audit of the financial statements the National Audit Office, also tests financial controls, reporting its findings to the Audit Committee.

Business planning process

In 2005–06 the organisation was in the second year of a three-year Corporate Plan, approved by the DTI. Each year a business plan is developed that sets out the strategy and activities for the year. As part of this exercise potential risks associated with each work-stream are identified and incorporated within the risk register.

Project monitoring

Activities are planned and monitored within a project framework. This ensures that as projects are initiated the risks attached to each one are identified and fed into the corporate risk structure.

Projects are monitored throughout their life cycle, with issues, risks and progress against agreed objectives fed into monthly and quarterly review reports. Both reports are reviewed by directors, with the quarterly review also approved by Council and the DTI and DCMS.

Where projects are considered to have an additional level of risk or complexity additional management and governance structures have been put in place.

The organisation is in the process of refining project management further with a system to be in place in 2006–07.

Internal controls

The organisation operates a comprehensive system of controls and procedures communicated to all staff through a series of handbooks. These systems consider issues both financial and non-financial including, but not limited to, the segregation of duties, value for money in procurement, protection of intellectual property etc. Essentially these frameworks are dynamic, changing to ensure that they remain suited to the structure and nature of the organisation.

5.4 Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the directors within the Design Council, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure that continuous improvement of the system is in place.

Processes which inform my review are:

- An annual business planning process which aligns programmes to corporate objectives set out in the three year Corporate Plan 2004–07
- A ‘bottom up’ system of risk assessment and management, including completion and regular review of a Risk Register, quarterly review of risks across the organisation and allocation of risk ownership

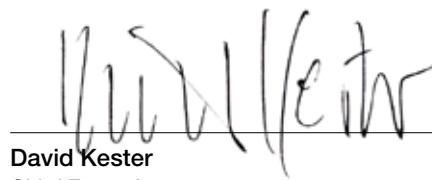
- A Director Team that meets weekly to consider the plans, strategic direction and operational issues relating to the organisation
- Monthly finance meetings to identify and anticipate any new financial risks
- An Audit Committee which meets regularly and reports back to the Council annually
- Periodic reports from the Design Council's internal auditors, to standards defined in the Government Internal Audit Standards, and sent to the Chief Executive for dissemination to the Director Team
- A comprehensive budgeting system with an annual budget which is reviewed and agreed by the Director Team under the chairmanship of the Chief Executive
- Regular reviews by the Director Team of periodic and annual financial reports which indicate financial performance against budget and subsequent forecasts
- Setting targets to measure financial and other performance and monitoring them on a quarterly basis
- Clearly defined capital investment control guidelines
- Formal project management disciplines including a monthly report that allows for a regular review of all projects and their status with relevant directors and quarterly review by the Director Team.

The Design Council has contracted Baker Tilly to carry out internal audit work on its behalf. The Baker Tilly team works according to the Government Internal Audit Standards. Their work includes an analysis of the risks to which the Design Council is exposed, and annual internal audit plans are based on this analysis. Their analysis of risk and internal audit plans are approved by me and endorsed by the Audit Committee.

Baker Tilly's internal audit team provide me with regular reports on their internal audit activity. Their annual report includes their opinion on the adequacy and effectiveness of the Design Council's system of internal control. For 2005–06 they concluded that there are no significant matters arising from internal audit visits and the systems in place are efficient, effective and reliable, sufficient for me as Accounting Officer to rely on.

5.5 Internal control issues

The Design Council implemented a 2005–06 pay award amounting to a 6.86 per cent increase in average earnings growth, without obtaining the required prior approval of the Department. Subsequently, the Department in accordance with the Treasury guidelines for this year, retrospectively approved an increase of 3.5 per cent in average earnings growth. Given this breach of the Treasury's pay remit requirements the Design Council has taken steps to ensure full compliance with the requirements in the future, including strengthening of its finance function, and the appointment of a qualified accountant to the post of Director of Finance and Resources.


David Kester
Chief Executive

23 July 2007


Sir George Cox
Chairman

20 July 2007

VI.

certificate of
the Comptrol-
ler and Auditor
General to the
Houses of
Parliament

I have audited the financial statements of the Design Council for the year ended 31 March 2006 under the Royal Charter of 1976. These comprise the Statement of Financial Activities, the Balance Sheet, the Cashflow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Chief Executive and the auditor

The Design Council and the Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, the Remuneration Report and the financial statements and for ensuring the regularity of financial transactions funded by Parliamentary grant ("Grant in Aid"). These responsibilities are set out in the Statement of Accounting Officer Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Charities Act 1993 and directions made by the Secretary of State. I also report whether in all material respects the expenditure, income and resources funded by Grant in Aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities

which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Design Council has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Design Council's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Design Council's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the sections of the Annual Report entitled Objectives and Activities, Performance, Plans for future, Governance and Management, Financial Review and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing

(UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Design Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure, income and resources funded by Grant in Aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Unqualified opinion on the truth and fairness of the financial statements and qualified opinion on the regularity of expenditure arising from unauthorised expenditure on staff remuneration.

In accordance with the Treasury requirements, the Design Council is required to obtain prior approval of their annual staff pay award from their sponsoring department (the Department of Trade and Industry). As disclosed in Note 3 to the Accounts, the Design Council implemented their 2005–06 pay award, which amounted to a 6.86 per cent increase in average earnings growth, without obtaining the required approval of the Department. Subsequently, the Department, in accordance with Treasury guidelines for this year, retrospectively approved an increase of 3.5 per cent in average earnings growth. Accordingly I have concluded that the expenditure on staff remuneration in excess of the increase authorised by the Department does not conform with the governing authorities and has not been applied for the purpose intended by Parliament.

In my opinion:

- the financial statements give a true and fair view, in accordance with the Charities Act 1993 and directions made by the Secretary of State, of the state of the Design Council's affairs as at 31 March 2006 and of the incoming resources and application of resources for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Charities Act 1993 and directions made by the Secretary of State; and
- except for the expenditure relating to staff remuneration in excess of the authorised annual pay increase referred to above, in all material respects the expenditure, income and resources funded by Parliament have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. Details of this matter are set out in my Report pages 36 to 39.



John Bourn
Comptroller and Auditor General

23 July 2007

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

vii.

the report
of the
Comptroller
and Auditor
General to
the Houses
of Parliament

Introduction

1. As part of my audit of the Design Council's financial statements, I am required to satisfy myself that the expenditure and income shown in the accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them; that is, they are "regular". In doing so I have regard to Treasury authorities and the Treasury manual "Government Accounting", which sets out the financial framework within which government entities are required to operate.

2. I have qualified my audit opinion on the Design Council's 2005-06 financial statements. My qualification arises in respect of regularity owing to the inclusion of expenditure on staff remuneration at a level exceeding the annual increase retrospectively approved by the sponsoring Department, the then Department of Trade and Industry (the Department).

Background to irregular expenditure

3. The Treasury seeks to ensure that levels of, and increases to, pay across the whole of the public sector do not cause inflationary pressures and are consistent with the wider fiscal environment. For the Civil Service, and Non Departmental Public Bodies (such as the Design Council), the Treasury requires compliance with an annual Pay Remit process.

4. For 2005-06 pay settlements, the Treasury set an administrative threshold of 3.5 per cent average earnings growth for all pay negotiating remits and would only approve exceptional cases above this figure on the basis of strong arguments, supported by evidence,

centred on 'reform and restructuring, addressing equal pay issues, and specific pay and recruitment, retention and motivation issues'.

5. The Department have delegated authority from the Treasury to approve the Design Council's pay remit. Accordingly, it is a condition of the Design Council's Financial Memorandum that they should submit their annual pay remit to the Department for approval.

6. The Design Council implemented an above 3.5 per cent pay remit from July 2005. However, they only submitted their 2005-06 pay remit proforma calculations to the Department in November 2005. They did not include the required business case and their calculations were found by the Department to be incorrect. A number of further incorrect or incomplete submissions were made over subsequent months and it was not until September 2006 that a correctly completed proforma, showing a pay growth increase of 6.86 per cent, and business case were submitted by the Design Council.

7. The pay growth increase of 6.86 per cent was used to provide all staff with a 3 per cent pay increase. It was also used to fund a small number of exceptional increases for staff, amounting to 0.19 per cent of the remit, whose responsibilities had significantly increased or who had gained relevant professional qualifications. A further 0.82 per cent of the remit was used to fund short term extra responsibility allowances and to increase the non-pay benefits of gym membership, health care and childcare vouchers. Taken together these elements accounted for 4.01 per cent of the remit. The remaining 2.85 per cent of the remit was used to implement a new pension

scheme as, prior to 2005 the Council offered a stakeholder pension scheme to staff to which it made no contribution.

8. The Design Council's decision to introduce the pension scheme was taken by its Remuneration Committee. The move was taken at a time of major change in the organisation following a full review of the Design Council and subsequent re-structuring. Management had advised that the existing staff contracts were out of date and required updating both to improve the terms and conditions, and bring them in line with employment legislation. One particular problem was that all staff were contracted on a three year period with a generous three month severance payment offered at the end of the term. This was deemed by management to incentivise staff to leave and this was backed up by a relatively high historical churn rate. The new contracts removed the three year term and severance payment. Management also determined that the lack of a contributory pension scheme was a significant problem in attracting and retaining quality people, and it therefore recommended to the remuneration committee to implement a contributory group personal pension scheme. The Design Council also set out these issues and their corresponding reasoning in the pay remit business case.

9. The Department noted that the new pension arrangements might aid the Council in recruiting and retaining staff, but overall they concluded that the Council's difficulties did not warrant the level spent in 2005–06. They therefore recommended to the Minister that retrospective approval be limited to the Treasury's administrative threshold of 3.5 per cent for 2005–06. The Minister accepted this advice and, in January 2007, agreed to a remit for the Design Council of no more than 3.5 per cent.

10. The Department also concluded that the Design Council did not intentionally disregard the pay remit requirements and that a lack of the relevant specialist expertise was to blame for the way in which the pay award was implemented and approval sought.

11. The 6.86 per cent pay remit figure is based on the total cost of employing all staff in post at 1 July 2005, compared to the same group of staff at 30 June 2006 – any starters and leavers in this period are ignored. The total cost of implementing the 6.86 per cent increase on this basis was £205,170. The portion of this which was above the authorised limit of 3.5 per cent was £100,512.

Audit Opinion

12. The Department have delegated authority from the Treasury to approve the Design Council's pay remit. Accordingly, it is a condition of the Design Council's Financial Memorandum that they should submit their annual pay remit to the Department for approval. They did not do this in time to obtain prior approval and subsequently received approval for only 3.5 per cent of the actual increase of 6.86 per cent. I have therefore concluded that the element of the 2005 pay remit that did not secure retrospective approval (£100,512 based on the pay remit calculations) is unauthorised and resulted in irregular expenditure from July 2005 to June 2006.

13. The Design Council have assured me that they now understand the requirements for approval of the annual pay increase and, in future, no pay increases will be implemented unless the necessary approval has been obtained. I am also pleased to note the action taken by the Design Council to strengthen their finance function, including the recent appointment of a qualified accountant to the post Director of Finance and Resources, and to improve their financial procedures and controls more generally.

A handwritten signature in black ink, appearing to read "John Bourn".

John Bourn
Comptroller and Auditor General

23 July 2007

VIII.

financial
statements
for the year
ended 31

March 2006

Statement of financial activities for the year ended 31 March 2006

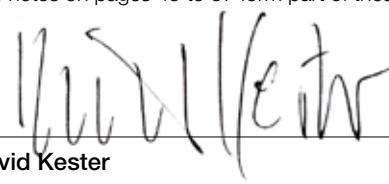
	NOTE	2006			2005
		UNRESTRICTED FUNDS £000	RESTRICTED FUNDS £000	TOTAL £000	TOTAL £000
INCOMING RESOURCES					
Voluntary income		6,605	—	6,605	6,631
Investment income		54	7	61	25
Incoming resources from generated funds	2	6,659	7	6,666	6,656
Incoming resources from charitable activities	2	202	2,087	2,289	1,386
Total incoming resources		6,861	2,094	8,955	8,042
RESOURCES EXPENDED					
Costs of charitable expenditure	7	6,626	2,046	8,672	7,715
Governance costs	7	302	—	302	226
Cost of capital charge	4	52	—	52	47
Total resources expended	7	6,980	2,046	9,026	7,988
Net incoming/(outgoing) resources before transfers		(119)	48	(71)	54
Transfers between funds	8	60	(60)	—	—
Cost of capital reversal	4	52	—	52	47
Net incoming/(outgoing) resources for the year before other recognised gains and losses		(7)	(12)	(19)	101
Net gain on revaluation of fixed assets for charity's own use		30	—	30	71
Net movement in funds		23	(12)	11	172
Funds brought forward at 1 April		1,203	266	1,469	1,297
Funds carried forward at 31 March		1,226	254	1,480	1,469

All operations are continuing. There were no recognised gains & losses in the year other than those shown above. The notes on pages 45 to 57 form part of these accounts.

Balance sheet as at 31 March 2006

	NOTE	2006 £000	2005 £000
FIXED ASSETS			
Tangible fixed assets	12	785	1,057
LONG-TERM DEBTORS			
Debtors: amounts falling due after one year	17	10	10
CURRENT ASSETS			
Debtors	13	821	353
Cash at bank	14	1,801	6,811
		2,622	7,164
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	15	1,892	6,614
NET CURRENT ASSETS		730	550
TOTAL ASSETS LESS CURRENT LIABILITIES		1,525	1,617
LONG-TERM LIABILITIES			
Creditors: amounts falling due after one year	18	45	148
TOTAL ASSETS LESS LIABILITIES		1,480	1,469
RESERVES			
Restricted funds reserve	9	254	266
Unrestricted funds reserve	8	1,226	1,203
TOTAL FUNDS		1,480	1,469

The notes on pages 45 to 57 form part of these accounts.



David Kester
Chief Executive

23 July 2007



Sir George Cox
Chairman

20 July 2007

Cash flow as at 31 March 2006

	NOTE	2006 £000	2006 £000	2005 £000	2005 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES			(4,894)		6,000
RETURN ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received	6		61		25
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Acquisition of assets	12	(180)		(452)	
Proceeds from disposal of fixed assets		3		—	
			(177)		(452)
INCREASE/(DECREASE) IN CASH			(5,010)		5,573

Analysis of changes in net funds

	NOTE	2006 £000	2005 £000
Net cash inflow/(outflow)		(5,010)	5,573
Cash balance at 1 April		6,811	1,238
CASH BALANCE AT 31 MARCH	14	1,801	6,811

Reconciliation of operating (deficit)/surplus to operating cash flow

	NOTE	2006 £000	2005 £000
Net incoming/(outgoing) resources before other recognised gains and losses		(19)	101
Investment income		(61)	(25)
Depreciation charge	12	479	399
(Gain)/loss on write off of fixed asset		—	6
(Increase)/decrease in debtors	13,17	(468)	(89)
Increase/(decrease) in creditors	15,18	(4,825)	5,608
NET CASH INFLOW FROM OPERATING ACTIVITIES		(4,894)	6,000

The notes on pages 45 to 57 form part of these accounts.

Notes to the accounts

01 Statement of accounting policies

1.1 Accounting convention

The accounts are prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice. Without limiting the information given, the accounts meet the requirements of the Companies Acts 1985 and accounting standards issued or adopted by the Accounting Standards Board so far as those requirements are appropriate.

The accounts are also prepared to meet best accounting practices relevant to charitable bodies, in so far as they are appropriate to the Design Council and the Accounts Direction issued by the Secretary of State of Trade & Industry. As an NDPB the accounts have also been prepared in accordance with the FReM.

The accounts have been prepared on a going concern basis.

1.2 Joint ventures

Dott 07/Designs of the Time Ltd, a joint venture with One Northeast was incorporated as a company limited by guarantee on 21 March 2006. In accordance with FRS9 the joint venture should be consolidated using gross equity method, however at the balance sheet date the company had yet to trade and therefore expenditures relating to the Dott 07 project have been shown as direct costs within charitable activities.

1.3 Incoming resources

All incoming resources are recognised within the SOFA where:

- The organisation is legally entitled to the income
- It is certain that the resource will be received
- The resource can be quantified with reasonable accuracy.

Where entitlement to incoming resources requires a specific performance to be achieved (a contract or performance related grant) then incoming resources are recognised only to the extent that the performance has taken place. Where monies are received in advance of entitlement they are deferred and recognised when the activity providing an entitlement to this income has taken place.

Incoming resources in relation to Intellectual Property are recognised when granted and are recognised regardless of the extent to which the Intellectual Property is applied unless the agreement conferring the property rights states otherwise.

1.4 Resources expended

Expenditure is accounted for on an accruals basis and allocated to the appropriate heading in the accounts.

Charitable activities expenditure enables the Design Council to meet its charitable aims and objectives.

Governance costs are associated with the governance arrangements of the charity and relate to the general running of the organisation.

Support Costs are those costs which enable charitable activities to be undertaken.

1.5 Grants payable and constructive obligations

Under FRS12 the charity recognises within resources expended liabilities relating to any constructive obligations. Such obligations are likely to arise where

the organisation has made a specific commitment to provide grant funding beyond the current reporting period and has communicated this directly to a grant recipient.

Where the organisation retains discretion, within the terms of its grant contract, to avoid the expenditure a liability will not be recognised and will be treated as a contingent liability.

1.6 Funds accounting

Funds held by the charity are either:

- Unrestricted funds—these are funds which can be used in accordance with the charitable objects at the discretion of the Council. Included within unrestricted funds are surpluses relating to Revenue Grant in Aid from the DTI.
- Deferred Capital Grant in Aid—these are funds set aside by the Council out of unrestricted funds to highlight the reserves invested in tangible fixed assets used by the charity in its operations.
- Restricted funds—these are funds that can only be used for particular restricted purposes within the objects of the charity. Restrictions arise when specified by the donor or when funds are raised for particular restricted purposes.
- Revaluation reserve – this arises from the annual revaluation of tangible fixed assets.

Transfers between funds are made in the following situations:

- From the Deferred Capital Grant in Aid to match the impact on unrestricted reserves of depreciation on assets purchased through capital Grant in Aid.
- To ensure that funds reflect any restrictions placed upon them.

The nature and purpose of each restricted fund are explained in note 9.

1.7 Reserves Policy

As an organisation with a largely predictable income stream and operating cycle it has not historically been necessary for the organisation to carry reserves to provide against unforeseen circumstances. Furthermore the ability to hold unrestricted reserves has been limited by the organisation's Financial Memorandum with the DTI and DCMS.

The Audit Committee has the duty to consider whether such a policy remains suitable given the organisation's income profile and the nature of its activities.

1.8 Fixed assets

As required by HM Treasury, the value of tangible fixed assets is reassessed annually by reference to current costs calculated using appropriate indices. Where the value is materially different from the net book value, the assets are revalued accordingly and any surpluses treated as a revaluation reserve. The cost or revaluation of tangible fixed assets is written off on a straight line basis over the assets' expected useful lives less any residual value as follows:

Leasehold improvements	Over the period of the lease
Leasehold fixtures and fittings	5 years, or over the period of the lease if less
Furniture and equipment	5 years
Computer hardware & software	2–5 years
Servers and assoc licenses	5 years
Laptops and assoc licenses	3 years

Tangible Fixed Assets costing less than £1,000 are not capitalised and are written off in the year of purchase.

Website costs have in previous years been capitalised and depreciated over a two year period, however in accordance with the recommendations of the SORP and UITF 29 (website development costs) all website costs are expensed in the year in which they are incurred.

1.9 Pension costs

Pension Costs for the defined contribution scheme are charged to the accounts on an accruals basis in accordance with the requirements of FRS 17.

1.10 Leases

Any lease which entails taking substantially all the risks and rewards of ownership of an asset is treated as a finance lease, is recorded in the balance sheet as a tangible fixed asset at its fair value and is depreciated over the term of the lease. Future instalments, net of finance charges, are included in creditors. Rentals payable are apportioned between the finance element, which is charged to the income and expenditure account, and the capital element, which reduces the outstanding obligations for future instalments.

All other leases are accounted for as operating leases and rentals are charged to the income and expenditure account on a straight line basis over the life of the lease.

1.11 Foreign currency

Transactions in foreign currency are recorded using the exchange rate ruling at the date of the transaction. Profits or losses on exchange are included in other operating income/charges for the year. Non-sterling assets and liabilities are recorded using the exchange rate ruling at the balance sheet date.

1.12 Value Added Tax

Design Council incurs irrecoverable VAT on many of its operations. In such instances transactions are stated inclusive of VAT. Where a transaction relates to an activity where the input VAT is recoverable, such items are stated net of VAT.

Where fixed assets have been stated inclusive of VAT, VAT is then written off over their useful lives.

1.13 Cost of capital

In accordance with HM Treasury guidance the Design Council has included a non-cash cost of capital in the results for the year calculated at a rate of 3.5% on average net capital employed. This cost is added back to determine the movement on reserves.

02 Incoming resources

Analysis of income from generated funds

	2006 £000	2005 £000
Revenue Grant in Aid	6,425	6,241
Capital Grant in Aid	180	390
Total Voluntary Income	6,605	6,631
Interest	61	25
Total Investment Income	61	25
TOTAL INCOME FROM GENERATED FUNDS	6,666	6,656

Grant in Aid is from the DTI.

Analysis of income from charitable activities

	2006 £000	2005 £000
Grants	2,087	1,339
Business Programme Fees	121	—
Income from ancillary trades	44	—
Other	37	47
TOTAL INCOME FROM CHARITABLE ACTIVITIES	2,289	1,386

As the Design Council's activities do not differ substantially from each other there are no separate segments for reporting purposes.

03 Staff costs

	2006 £000	2005 £000
Salaries	2,788	2,730
Social security costs	313	301
Pension costs	85	18
Total payroll staff costs	3,186	3,049
Total temporary and contract staff costs	224	273
TOTAL STAFF COSTS	3,410	3,322

Number of employees

The number of salaried full time equivalent employees employed by the Design Council in the year ended 31 March 2006 was as follows:

	2006 NUMBER	2005 NUMBER
Projects	60	53
Support	17	16
TOTAL (FULL-TIME EQUIVALENT)	77	69

The Chairman and members of the Design Council are appointed by the Secretary of State for Trade & Industry, in accordance with guidance from the Commissioner for Public Appointments. The appointments are unpaid but expenses incurred on Design Council business are reimbursed. Expenses reimbursed totalled £15,176 for the Council's 17 members (2005 £3,093), these were for travel, subsistence and entertaining.

The Design Council implemented a 2005–06 pay award amounting to a 6.86 per cent increase in average earnings growth, without obtaining the prior approval of the Department. Subsequently, the Department, in accordance with the Treasury guidelines for this year, retrospectively approved an increase of 3.5 per cent in average earnings growth. In light of this the Comptroller and Auditor General has qualified his regularity opinion on the accounts owing to the inclusion of expenditure on staff remuneration in excess of that authorised by the Department.

04 Cost of capital

In accordance with Treasury guidance, cost of capital is calculated based on average total assets less liabilities during the year, at the agreed Treasury rate of 3.5% (2005 – 3.5%).

	2006 £000	2005 £000
Cost of capital	52	47

05 Other operating charges:

The operating surplus for the financial year is after charging:

	2006 £000	2005 £000
Auditors' remuneration for audit work	30	23
Travel, subsistence and hospitality		
Staff	122	139
Council members	15	3
Operating leases – plant and machinery	26	32
Operating leases – other	241	240
Depreciation	479	242

06 Net interest receivable and similar charges

	2006 £000	2005 £000
Bank Interest receivable	61	25

07 Total resources expended

	2006					2005
	GRANTS PAYABLE £000	STAFF COSTS £000	OTHER DIRECT COSTS £000	ALLOCATION OF SUPPORT COSTS £000	TOTAL £000	TOTAL £000
DIRECT CHARITABLE EXPENDITURE						
RED	—	262	348	791	1,401	1,186
Campaigns	—	697	970	1,834	3,501	3,635
Design Solutions	—	607	906	1,647	3,160	2,523
Dott	218	113	97	182	610	371
TOTAL DIRECT CHARITABLE EXPENDITURE	218	1,679	2,321	4,454	8,672	7,715
Governance Costs	—	107	70	125	302	226
Cost of capital	—	—	52	—	52	47
TOTAL RESOURCE EXPENDED	218	1,786	2,443	4,579	9,026	7,988

Resources expended have been analysed in accordance with the revised SORP requirements. Support costs have been allocated directly to an objective wherever directly applicable or else have been attributed on headcount. Comparatives have been restated on the same basis.

Governance costs include audit, legal advice for Council members and costs associated with meeting constitutional and statutory requirements. This category also includes costs associated with the strategic element of the organisation's activities.

Support costs include finance, human resources, information systems, communications, property, management and legal costs. Where expenditure incurred relates to more than one cost category, it is apportioned. The method of apportionment uses the most appropriate basis in each case.

TYPE OF COST	BASIS OF ALLOCATION	2006		2005
		£000	£000	£000
Communications	HEADCOUNT	1,124		961
Government Relations	HEADCOUNT	281		63
Research & Information	HEADCOUNT	362		63
Facilities	HEADCOUNT	1,006		866
Human Resources	HEADCOUNT	374		249
IT	HEADCOUNT	186		171
Finance	HEADCOUNT	191		105
Depreciation	HEADCOUNT	479		399
Other	HEADCOUNT	576		603
TOTAL		4,579		3,480

All communication costs included within the support costs relate to raising the organisation's profile rather than fundraising.

08 Unrestricted reserves

	OPERATING RESERVE £000	REVALUATION RESERVE £000	CAPITAL GRANT IN AID RESERVE £000	TOTAL RESERVES £000
1 April 2005	195	84	924	1,203
Net outgoing resources before transfers	(116)	—	(3)	(119)
Cost of capital reversal	52	—	—	52
Transfer from restricted funds	60	—	—	60
Revaluation of fixed assets	—	13	17	30
Capital grant in Aid for the year	(180)	—	180	—
Transfer to operating reserve to offset depreciation	470	(46)	(424)	—
BALANCE AT 31 MARCH	481	51	694	1,226

A transfer made between unrestricted funds and the 'Great Expectations' Fund in the year ended 31 March 2005, was overstated by £59,807 and therefore a transfer from restricted to unrestricted has been necessary in the year.

Each year a transfer is made from the capital reserve and revaluation reserve to operating reserve to offset the depreciation charged on fixed assets.

09 Analysis of funds

REFERENCE		AT 1 APRIL £000	INCOMING RESOURCES £000	OUTGOING RESOURCES £000	TRANSFERS £000	REVALUATIONS £000	AT 31 MARCH 2006 £000
	Unrestricted Funds	1,203	6,861	(6,928)	60	30	1,226
	Restricted Funds						
(a)	DTI—'Change Process'	49	—	(9)	—	—	40
(b)	Great Expectations	217	7	—	(60)	—	164
(c)	DTI—'Project Funding'	—	1,000	(1,000)	—	—	—
(d)	DTI—'Web Funding'	—	500	(500)	—	—	—
(e)	DFES	—	286	(286)	—	—	—
(f)	Bolton Diabetes Network	—	50	(25)	—	—	25
(g)	Kent County Council	—	50	(25)	—	—	25
(h)	Advantage West Midlands	—	60	(60)	—	—	—
(i)	Other	—	141	(141)	—	—	—
SUB	TOTAL RESTRICTED	266	2,094	(2,046)	(60)	—	254
TOTAL	TOTAL RESERVES	1,469	8,955	(8,974)	—	30	1,480

£9k charged to the DTI – 'Change Process' reserve relates to the depreciation charge on related assets.

All restricted funds have been raised for a specific purpose and a commitment has been made to the donor that funds will be used for this restricted purpose. The funds above have been raised for the following:

- a. To support the Design Council's organisational restructuring
- b. This represents a surplus from funding received from the DTI in 2000 to fund an international touring exhibition to promote British design. The DTI has authorised that this reserve can be attributed to the UK Biennial and has been carried forward to fund Dott 07 in the next financial year.
- c. To support the implementation of the DTI's Innovation Project
- d. To support the development of a new website
- e. To support the Learning Environments Campaign
- f. To support the Health Campaign
- g. To support the Health Campaign
- h. To support the Manufacturing Design Immersion Programme (DIP)
- i. Other funds provided for specific purposes not exceeding £20,000

10 Analysis of group net assets between funds

Funds balances at 31 March 2006 are represented by:

	UNRESTRICTED FUNDS	RESTRICTED FUNDS	TOTAL
	£000	£000	£000
Tangible Fixed Assets	745	40	785
Long-term debtors	10	—	10
Current Assets	1,982	640	2,622
Current Liabilities	(1,466)	(426)	(1,892)
Long Term Liabilities	(45)	—	(45)
TOTAL NET ASSETS 31 MARCH 2006	1,226	254	1,480

11 Joint Ventures

On Designs of the Time/Dott 2007 Limited "Dott 07", a company limited by guarantee, was created to provide a vehicle for the public engagement programme, Dott 07. The company is incorporated in Great Britain and operates in North East England. It has two guarantors—the Design Council and One North East both of which have an equal level of operational control.

As at 31 March 2006 the company had not traded and has zero net assets. The company has yet to produce financial statements.

12 Fixed Assets

	LEASEHOLD IMPROVEMENTS £000	FURNITURE & EQUIPMENT £000	INFORMATION TECHNOLOGY £000	WEBSITE DEVELOPMENT £000	TOTAL £000
1 April 2005	2,338	613	353	993	4,297
Additions	23	103	54	—	180
Disposals	—	(1)	(2)	—	(3)
Revaluation	42	4	(14)	—	32
31 March 2006	2,403	719	391	993	4,506
1 April 2005	1,634	375	238	993	3,240
Charge for year	324	65	90	—	479
Disposals	—	—	—	—	—
Revaluation	29	3	(30)	—	2
31 March 2006	1,987	443	298	993	3,721
NET BOOK VALUE 31/03/06	416	276	93	—	785
31 March 2005	704	238	115	—	1,057

13 Debtors

	2006 £000	2005 £000
Other debtors	184	166
Pre-payments and accrued income	637	187
	821	353

14 Cash

	2006 £000	2005 £000
Cash at bank	1,801	6,811

15 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Trade creditors	667	457
Taxation & social security	129	101
Other creditors	170	5,447
Accruals	812	416
Deferred income	114	193
	1,892	6,614

16 Deferred Income

	2006 £000	2005 £000
Balance at April 1	193	436
Incoming resources deferred in the year	114	193
Deferred income released in the year	(193)	(436)
Balance at 31 March	114	193

From the DfES £50,000 of income was deferred until all obligations under contract are fulfilled.

At the end of the year £60,000 was received from the University of Central England in relation to a series of business programmes. As the business programme had yet to commence all the income relating to this was deferred.

17 Debtors: Amounts falling due after more than one year

	2006 £000	2005 £000
Supplier deposit	10	10
Balance at 31 March	10	10

18 Creditors: Amounts falling due after more than one year

	2006 £000	2005 £000
Redundancy commitments	13	37
Rent free provision	19	97
Archive provision	13	14
Balance at 31 March	45	148

19 Intra government balances

	DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR
	£000	£000	£000	£000
Balances with central government bodies	595	—	(511)	—
Balances with local authorities	34	—	(34)	—
Balances with NHS Trusts	—	—	—	—
Balances with public corporations and trading funds	—	—	—	—
Balances with bodies external to government	192	10	(1,347)	(45)
AT 31 MARCH 2006	821	10	(1,892)	(45)
AT 31 MARCH 2005	353	10	(6,614)	(148)

20 Operating leases

The amounts payable due under non-cancellable operating leases are shown below analysed according to the expiry date of the leases.

	2006 £'000	2005 £'000
Other leases: commitments in respect of leases expiring within a year	1	4
Other leases: commitments in respect of leases expiring between two to five years	9	—
Other leases: commitments in respect of leases expiring after five years	1	—
Property leases: expiring within one and five years	317	317
	328	321

21 Capital commitments

At 31 March 2006 there were no capital commitments (2005 £17k).

22 Other Financial Commitments

During the year the Design Council initiated Dott 07 in conjunction with One North East. Both organisations have agreed to fund the project, with the Design Council undertaking to provide £1m (£218k has been charged to the accounts this year with a further £325k committed in 2006–07 and £457k in 2007–08). This funding is, however, contingent on certain milestones been reached and this has been communicated in the funding letter to Dott 07 (and therefore there is no constructive obligation under FRS12).

23 Contingent liabilities

At 31 March 2006 there remains a contingent liability relating to the Design Council Pension Scheme (DCPS) which was fully wound up during 2005. As part of the winding up process, DCPS liabilities were transferred to a third party. However, there remains a possibility that unforeseen claims could arise, which the Design Council would have to meet, although the financial effect of these cannot be estimated. Currently there would be no reimbursement from another party to cover any DCPS liability arising.

On 29 March 2006 an individual was injured in an accident outside the Design Council. Although responsibility for the area in which the accident took place has yet to be determined it is possible that the Design Council will be liable. The tariff set for the injuries sustained would suggest a liability of approximately £3,000 – 5,000. The Design Council is prevented by its Financial Memorandum to insure against such potential claims.

24 Taxation

The Design Council is exempt from the payment of Corporation Tax.

25 Related party transactions

The Design Council is a Non Departmental Public Body sponsored by the Department of Trade and Industry. During the year the Design Council had various material transactions with the DTI, which is regarded as a related party. In addition to this the Design Council has had various material transactions with other government bodies. The DTI is the controlling party of the Design Council.

Council members, in relation to Council responsibilities, are remunerated for expenses only. None of the Council members, directors or key managerial staff or other related parties has undertaken any material transactions with the Design Council during the year except:

- Award sponsorship and membership subscriptions totalling £10,402 were paid to the Royal Society of Arts (of which the Chief Executive of the Design Council is a Council member).
- £10,000 was paid to Network for Industry (of which a Council member is a non executive director) in support of the Parliamentary Design Group.
- During the year the Design Council disposed of assets relating to the Great Expectations travelling exhibition. As the assets had been subject to heavy use and were in poor condition and therefore staff were given the option to purchase the items for nominal values (approximate values having been determined with reference to an internet auction site). Receipts from such internal sales totalled £2.2k. Written permission to dispose of assets in such a way was not obtained from the DTI, but has been subsequently.

26 Financial Instruments

Derivatives and Other Financial Instruments, require disclosure of the role financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Due to the wholly non-trading nature of its activities and the way in which Non-Departmental Public Bodies are financed, the Design Council is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. As permitted by FRS 13, the following disclosures exclude short-term debtors and creditors.

The Design Council has no powers to borrow and limited power to invest surplus funds or conduct transactions in foreign currency. There was a balance held at the year end of €62,000. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Design Council in undertaking its activities.

There are no debtors and creditors which mature or become payable after 12 months from the balance sheet date other than liabilities for annual redundancy payments to the date of retirement of seven former employees amounting to £36,779 (2005 £77,003), £23,914 of which is payable in 1–2 years and £12,865 thereafter, and a deposit held by a supplier.

27 Fair values

There is no difference between the book value and fair value of any of the Design Council's financial assets and liabilities as at 31 March 2006.

28 Post balance sheet events

The Department for Trade and Industry was the sponsoring body responsible for the Design Council during the 2005–06 financial year. Following the announcement by the Prime Minister on 28 June 2007 about the way Government is organised, the Department for Trade and Industry ceased to operate as the DTI. The Department for Universities, Innovation and Skills will now assume some of the work of the DTI including sponsorship and funding of the Design Council.

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**The Design Council is
the national strategic body
for design.**

Its **purpose** is to strengthen and support the UK economy and society by inspiring and enabling the best use of design.

Its **goal** is that UK managers become the best users of design supported by the most skilled and capable design professionals.

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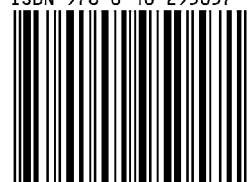
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